

Kluwer Patent Blog

U.S. White House Announces Initiatives Against Patent Trolls

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On June 4, 2013, the U.S. White House issued a press release announcing its “Task Force on High-Tech Patent Issues.” The press release outlined five executive actions and seven legislative recommendations “designed to protect innovators from frivolous litigation and ensure the highest-quality patents in our system.” The target of these initiatives are so-called “patent trolls,” whom the White House asserts are responsible for 62 percent of all patent infringement suits in the United States.

The press release set the stage for these initiatives as follows:

[I]nnovators continue to face challenges from Patent Assertion Entities (PAEs), companies that, in the President’s words “don’t actually produce anything themselves,” and instead develop a business model “to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.” These entities are commonly known as “patent trolls.” Likewise, the so-called “Smartphone Patent Wars” have ballooned in recent years and today, several major companies spend more on patent litigation and defensive acquisition than on research and development.

Executive Actions

The press release outlined these five executive actions:

1. **Making “Real Party-in-Interest” the New Default.** Patent trolls often set up shell companies to hide their activities and enable their abusive litigation and extraction of settlements. This tactic prevents those facing litigation from knowing the full extent of the patents that their adversaries hold when negotiating settlements, or even knowing connections between multiple trolls. Today, the PTO will begin a rulemaking process to require patent applicants and owners to regularly update ownership information when they are involved in proceedings before the PTO, specifically designating the “ultimate parent entity” in control of the patent or application. (Please see [this article](#) regarding the USPTO’s previous proposal to require the disclosure of real party-in-interest information throughout the patent application process and after grant.)
2. **Tightening Functional Claiming.** The AIA made important improvements to the examination process and overall patent quality, but stakeholders remain concerned about patents with overly broad claims — particularly in the context of software. The PTO will provide new targeted training to its examiners on scrutiny of functional claims and will, over the next six months develop strategies to improve claim clarity, such as by use of glossaries in patent specifications to assist examiners in the software field.

3. **Empowering Downstream Users.** Patent trolls are increasingly targeting Main Street retailers, consumers and other end-users of products containing patented technology — for instance, for using point-of-sale software or a particular business method. End-users should not be subject to lawsuits for simply using a product as intended, and need an easier way to know their rights before entering into costly litigation or settlement. Today, the PTO is announcing new education and outreach materials, including an accessible, plain-English web site offering answers to common questions by those facing demands from a possible troll.
4. **Expanding Dedicated Outreach and Study.** Challenges to U.S. innovation using tools available in the patent space are particularly dynamic, and require both dedicated attention and meaningful data. Engagement with stakeholders — including patent holders, research institutions, consumer advocates, public interest groups, and the general public — is also an important part of our work moving forward. Roundtables and workshops that the PTO, DOJ, and FTC have held in 2012 have offered invaluable input to this process. Today, we are announcing an expansion of our outreach efforts, including six months of high-profile events across the country to develop new ideas and consensus around updates to patent policies and laws. We are also announcing an expansion of the PTO Edison Scholars Program, which will bring distinguished academic experts to the PTO to develop — and make available to the public — more robust data and research on the issues bearing on abusive litigation.
5. **Strengthen Enforcement Process of Exclusion Orders.** Once the U.S. International Trade Commission (ITC) finds a violation of Section 337 and issues an exclusion order barring the importation of infringing goods, Customs and Border Protection (CBP) and the ITC are responsible for determining whether imported articles fall within the scope of the exclusion order. Implementing these orders present unique challenges given these shared responsibilities and the complexity of making this determination, particularly in cases in which a technologically sophisticated product such as a smartphone has been successfully redesigned to not fall within the scope of the exclusion order. To address this concern, the U.S. Intellectual Property Enforcement Coordinator will launch an interagency review of existing procedures that CBP and the ITC use to evaluate the scope of exclusion orders and work to ensure the process and standards utilized during exclusion order enforcement activities are transparent, effective, and efficient.

These are steps that the Executive Branch can take *now*, without any legislative changes or new laws.

Legislative Recommendations

The press release outlined these seven legislative recommendations:

1. Require patentees and applicants to disclose the “Real Party-in-Interest,” by requiring that any party sending demand letters, filing an infringement suit or seeking PTO review of a patent to file updated ownership information, and enabling the PTO or district courts to impose sanctions for non-compliance.
2. Permit more discretion in awarding fees to prevailing parties in patent cases, providing district courts with more discretion to award attorney’s fees under 35 USC 285 as a sanction for abusive court filings (similar to the legal standard that applies in copyright infringement cases).
3. Expand the PTO’s transitional program for covered business method patents to include a broader category of computer-enabled patents and permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (PTAB).
4. Protect off-the-shelf use by consumers and businesses by providing them with better legal

protection against liability for a product being used off-the-shelf and solely for its intended use. Also, stay judicial proceedings against such consumers when an infringement suit has also been brought against a vendor, retailer, or manufacturer.

5. Change the ITC standard for obtaining an injunction to better align it with the traditional four-factor test in *eBay Inc. v. MercExchange*, to enhance consistency in the standards applied at the ITC and district courts.
6. Use demand letter transparency to help curb abusive suits, incentivizing public filing of demand letters in a way that makes them accessible and searchable to the public.
7. Ensure the ITC has adequate flexibility in hiring qualified Administrative Law Judges.

These are legislative changes that the White House would like Congress to enact. It is not clear whether there is enough consensus in on these issues to overcome partisan politics and pass new patent reform legislation, but bills already have been circulated or introduced in both the House and the Senate.

White House Report on Patent Assertion and U.S. Innovation

The initiatives outlined in the press release are support by the report on “Patent Assertion and U.S. Innovation” released by the National Economic Council and the Council of Economic Advisers. This report details the problem of “patent trolls” and the need for the executive and legislative initiatives outlined in the press release.

As stated in the introduction:

This report looks particularly at firms who do not practice the patents they own and instead engage in aggressive litigation to collect license and other fees from alleged infringers. A review of the evidence suggests that on balance, such patent assertion entities (PAEs) (also known as “patent trolls”) have had a negative impact on innovation and economic growth.

The report defines “patent trolls” as follows:

1. They do not “practice” their patents; that is, they do not do research or develop any technology or products related to their patents;
2. They do not help with “technology transfer” (the process of translating the patent language into a usable product or process);
3. They often wait until after industry participants have made irreversible investments before asserting their claims;
4. They acquire patents solely for the purpose of extracting payments from alleged infringers;
5. Their strategies for litigation take advantage of their non-practicing status, which makes them invulnerable to counter-claims of patent infringement;
6. They acquire patents whose claim boundaries are unclear, and then (with little specific evidence of infringement) ask many companies at once for moderate license fees, assuming that some will settle instead of risking a costly and uncertain trial;
7. They may hide their identity by creating numerous shell companies and requiring those who settle to sign non-disclosure agreements, making it difficult for defendants to form common defensive strategies (for example, by sharing legal fees rather than settling individually).

The report concludes with the following recommendations:

[T]he best approach to resolving today’s patent troll problem is not to ban firms specialized in

patent assertion, but rather to reduce the extent to which legal rules allow patent owners to capture a disproportionate share of returns to investment (Lemley 2008). We see three main areas for improvement: clearer patents with a high standard of novelty and non-obviousness, reduced disparity of litigation costs between patent owners and technology users, and greater adaptability of the innovation system to challenges posed by new technologies and new business models.

Can We Ensure That These Changes Do More Harm Than Good?

It is always a concern when laws with general application are amended to address a specific problem within a specific industry. U.S. patent laws and rules governing court proceedings apply across all technologies. According to the White House report, the problem being addressed here primarily impacts the high-tech (computer and cell phone) industries. As specific rule changes and new legislation is proposed, the USPTO and Congress should take care to ensure that their “fixes” don’t do more harm than good to the U.S. patent system as a whole.

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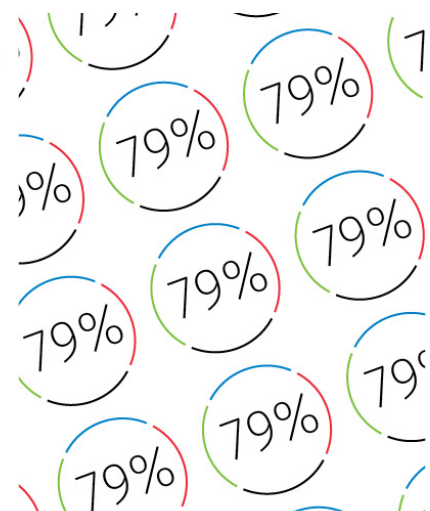
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